

EU - China: moving toward a new approach?

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Executive Summary

Beijing is formulating a new system to safeguard its interests on the international scene. The authorities are leaving the old logic strictly market oriented, preferring, instead, an indirect and cooperative approach. The European countries could do the same. The EU-China relations can become, therefore, an incubator able to invent a brand new model of international interaction.

Issues

The debt crisis didn't change the Chinese interest for Europe nor the trust that Beijing has for the Old Continent, this is why China is ready to give its support: these are the words that Chinese authorities are continuously repeating in the last months. Even the premier Wen Jiabao did the same during his last visit in the Old Continent. A support that is not entirely disinterested, obviously.

Beijing asks for the recognition of the market economy status before 2016, as provided in the WTO access agreement with the EU. If this is the case, it would make illegitimate the precautionary measures undertaken against the Chinese competition. Besides, they are asking for the removal of the embargo adopted after the Tiananmen events.

However, the conditions they are asking for do not have to obstacle a wider analysis of the current scenario, because there's more: Beijing is adopting a new approach with the EU. An approach characterized by the fact that is not strictly mercantilistic: China has strong interest for a healthy trading partner as well as for the prosperity of its economy. The EU should follow the Chinese example, starting to look at China in a "non conventional" way and, at the same time, it should realized that taking part to the Beijing policies to create its own middle-class are among the European priorities. In other words, the EU has a strong interest in participating to the building of a Chinese Welfare State.

It should be noted that, even if the Beijing availability to subscribe the debt of those European countries that lie in difficulties is decreasing, the authorities keep on investing in Europe.

The two Round of quantitative easing of the FED has not been welcomed by Beijing, as it de facto corresponded to an erosion of the Chinese credit toward the USA. In that scenario, the Europe of the German rigourism appeared as a happy oasis. Nowadays, after the renewal of BCE governance, things seem to have changed: Draghi appears to be more available to work at the Bernanke way. At this point occurred a change in Beijing: investing in those goods and sectors that are not affected by the inflation; for example, the acquisition of a Thames Water's minority share, the biggest British hydric operator. This decision was defensive, but not aggressive.

But there's more: Beijing is firmly hoping that the European economy starts to grow again, as proved, for example, by the mega job orders subscribed by the vice premier Li Keqiang in Europe, corresponding to \$8,7 billions in Germany and \$7,5 billion in Spain. Another example is

Keywords

China, European Union, Debt, Welfare State, Crisis

Quotables

- Beijing is adopting a new approach with the EU. An approach characterized by the fact that is not strictly mercantilistic: China has strong interest for a healthy trading partner as well as for the prosperity of its economy

- The EU has a strong interest in participating to the building of a Chinese Welfare State.

- Europe, therefore, keeps on being the principal market for the Chinese export, on which, despite the XII five-years plan, Chinese economy still depends from.

Abstract

Beijing is formulating a new system to safeguard its interests on the international scene. The authorities are leaving the old logic strictly market oriented, preferring, instead, an indirect and cooperative approach. The European countries could do the same. The EU-China relations can become, therefore, an incubator able to invent a brand new model of international interaction.

the credit of 10 billions announced by Li Keqiang during his last trip in Europe that will be used to finance joint projects in the infrastructure and new energy sectors.

The reasoning that shapes the new Chinese approach is linear. The European Union is China's first trade partner, comparing the November 2009 data with those of the last year the bilateral commerce between China and UE has increased of 30%, reaching the amount of \$434 billions. In the United States, which stands in economic depression, the consumption propensity decreases more and more. Beijing has already deeply invested in the American debt and, at the moment, Chinese authorities have no possibilities for further investments in the United States' deflation trend.

Europe, therefore, keeps on being the principal market for the Chinese export, on which, despite the XII five-years plan, Chinese economy still depends from. In this way, "investing in money reserves in Europe, the Middle Empire reduces the pressures on the State bonds, supports the decrease of the interest rates of those countries in difficulties, alleviates the obligations that the public balance has to respect and makes the deflation measures less pressing. This matters, indeed, even if compulsory, restrain the Old Continent growth. Therefore, de facto, it's all about reallocating economic growth from the Far-East to Europe" and, in this way, Beijing supports European consumptions and, hence, Chinese import. An urgent measure, if you consider that the import have been reduced because of the Yuan appreciation against euro. This means that Beijing is buying the European debt in order to support the consumption (as well as the Chinese import) of the Old Continent and it invests in Europe, not only to gain knowledge and technologies, but also to be able to sustain the economic recovery. China, hence, is trying to safeguard the national interest (export and, therefore, occupation and social stability) in an indirect and cooperative way.

Beijing, in other words, has understood, in this case before everybody else, that in a deeply connected and interdependent world nobody can survive alone.

Europe should meditate on Beijing's new approach, not only because China, in order to face the crisis and to create the conditions for the economic growth, is massively investing in the creation of a Welfare State system; while in the Old Continent the social expenses are (or will be) cut down.

But, moreover, Europe should think over the indirect approach (that could be defined asymmetric) through which China is pursuing national interests.

If Europe won't arrest the pressures for the massive policy of cuts on the expenditure, the Old Continent future could be characterized by austerity. This means that the European countries should aim at export, considering the likely reduction of the home demand. In this case, Europe would adopt the same Chinese approach, specifically cooperation with Beijing for the building of the Welfare State in China.

Brussels can help China to import the European social system: transmission and diffusion of technologies, know-how, education and scientific research. The cooperation possibilities could be countless. For what concerns Italy, collaboration programs of this kind have been already established, in particular with the Region of Tuscany in the medical sector.

This is an option that can create a virtuous process that would produce effect not only in the short run (growth of the Chinese consumption and of the European export) but also in the long run. Such collaboration, indeed, could represent the prototype to avoid falling again in a zero sum competition, just like the one of the 1930s, and to start a new reconstruction of the international order.

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